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**USWEST**

Lawrence E. Sarjeant  
Vice President -  
Federal Regulatory

September 16, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

**EX PARTE PRESENTATION**

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
Mail Stop 1170  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

RE: Payphone Deregulation  
CC Docket No. 96-128

Dear Mr. Caton:

In accordance with Commission Rule 1.1206(a)(1), attached hereto are two copies of a written presentation that was delivered today to Lauren J. Belvin, Senior Legal Advisor to Commissioner James Quello, and Daniel Gonzalez, Legal Advisor to Commissioner Rachelle Chong, concerning the above-referenced proceeding. The copies of the presentation are being filed with you for inclusion in the public record.

Acknowledgment and date of receipt of this transmittal are requested. A copy is provided for this purpose. Please contact me if you have questions.

Sincerely,

*Lawrence E. Sarjeant*

attachments

cc: Lauren J. Belvin  
Daniel Gonzalez

No. of Copies rec'd  
LIST ABOVE

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## **Public Interest Phones – Iowa Works**

1. **Iowa Works** -- Iowa has been successfully deregulated for 10 years.
  - Uses “requester pays” approach which establishes cost/benefit consideration in determining where public interest phones are truly needed.
  - Requester can issue RFP to get bids for provision of public interest phones thereby minimizing the cost by letting the market work.
2. Other plans could cause proliferation of public interest phones while discouraging the development of competition contrary to the intent of the Telecommunications Act; for example:
  - California Plan has no safeguards to prevent proliferation of public interest phones because there is no cost to requesting party.
  - California Plan is funded by a per phone surcharge which causes competitors to place fewer phones especially in low call volume locations such as rural areas which increases requests for public interest phones.
  - California Plan restricts the provision of public interest phones to one provider thereby eliminating the benefits of a competitive market in the provision of such phones.
3. Deferring to states could produce 50 different approaches many of which may have disincentives to competition similar to the California Plan.

## **Deregulation of Local Call Rates -- Iowa Works**

**Iowa Works** – Iowa deregulated local payphone rates in 1985. Rates quickly reached equilibrium at \$0.35 and there are as many payphones in place today as there were prior to deregulation.

- “Location Monopolies”
  - While the rate at Des Moines airport was initially raised to \$0.50, pressure from the city as well as repression in the number of calls quickly resulted in a decrease to \$0.35. If U S WEST had not lowered the rate, the airport would have found a payphone provider who would.
  - The local rate was also initially raised to \$0.50 at truck stops in Iowa. Negative consumer reaction resulted in a rapid decrease in rate to \$0.35. (“Negative reaction” included some cases where payphones were dragged down the road behind “semi’s” by disgruntled truckers.)
- Market forces such as competition, repression, complaints, and cross-elasticity with wireless will prevent rates from getting inordinately high.

## **Per Call Compensation**

- FCC set the per call compensation rate of \$0.40 in 1992 in CC 91-35 based on the value of the calls to IXC's. Changes since then would dictate that the rate should be higher - not lower - e.g., higher line and equipment costs, higher IXC revenue per call due to increased 0+ surcharges and higher toll rates.
- IXC's routinely pay \$0.80 - \$0.90 and more in commission on an average \$2.50 0+ call. Currently, IXC's pay \$0.25 - \$.40 on 10XXX calls and nothing on 1-800 platform calls yet customers pay the same rate for the call. This lack of compensation simply increases the IXC's profits on these calls at the expense of the payphone provider without whom the calls would not exist.
- Per call compensation must apply to each and every completed call over "1-800" platforms through regenerated dialtone. IXC's have all the data needed to track and compensate for these calls.
- Per call compensation must be paid on 1-800 subscriber calls. IXC's argue that they get little revenue from the call but this ignores the potential revenue to the 800 subscriber who should be willing to pay the compensation on the very small percentage of calls from payphones that generate business for their firm.

**U S WEST**

**TELECOMMUNICATIONS ACT OF 1996**

**SECTION 276**

# SUMMARY OF U S WEST POSITIONS

- ① Local Rates Should Be Deregulated - Full Pricing Freedom
- ① Per Call Compensation Should Be Established Based On Market Value Of Calls
- ① Carriers Should Track Toll Calling For Per Call Compensation
  - \* LECs and IPPs should be allow to submit billing from other systems --  
billing must be auditable
- ① RBOC Selection Of Toll Carriers Would Be In The Public Interest And Would  
Create Competitive Parity
- ① Asset Reclassification Should Be Based On Net Book Value
- ① CI-III Safeguards And Non-Structural Separation Are Adequate
- ① Public Interest Payphones Should Be Funded By The Requesting Party

# U S WEST PUBLIC SERVICES

- ① 118,822 Payphones (July, 1996)
  - \* 94,971 Public
  - \* 16,954 Semi-Public
  - \* 6,897 Inmate
- ① 56,911 Independent Payphone Provider Lines
- ① Payphones Are Deregulated In Five States
  - \* Iowa, 1985
  - \* Nebraska, 1987
  - \* South Dakota, 1992
  - \* North Dakota, 1993
  - \* Wyoming, 1995
- ① Payphones Local Call Rates Are Detariffed In Montana (1990)
- ① Remaining Eight States Are Regulated

# DEREGULATED STATES

	TOTAL PAYPHONES AT DEREGULATION	USWC PAYPHONES	IPP ACCESS LINES	TOTAL PAYPHONES JULY, 1996	LOCAL CALL RATE
IOWA (9-85)	10,824 <sup>(1)</sup>	7,751	3,032	10,783	\$0.35
NEBRASKA (1-87)	5,612 <sup>(1)</sup>	4,200	1,626	5,826	\$.035
SOUTH DAKOTA (11-92)	3,747	2,864	788	3,652	\$0.25
NORTH DAKOTA (8-93)	3,357	2,203	723	2,926 <sup>(3)</sup>	\$0.35
WYOMING (3-95)	3,782	2,991	926	3,917 <sup>(3)</sup>	\$0.35 <sup>(2)</sup>
MONTANA (Detariffed 3-90)	4,915	3,500	1,496	4,996	\$0.25

1. Payphones in service as of December 31, 1987 -- data pre 12/31/87 unavailable

2. Local Call Rate established prior to deregulation

3. Adjusted for Sale of Rural Exchanges

9/6/96

# IOWA DEREGULATION

① Accounting Separation

① Local Call Rate Is \$0.35

① Set Use Fee Is \$0.35 Per Call (USW IntraLATA Only)

① Directory Assistance Charge Is \$0.35 Per Call

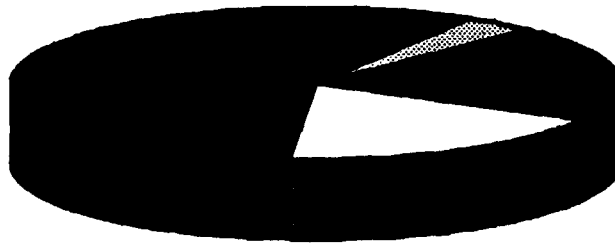
① Payphone Availability Has Remained Constant

\* END OF YEAR 1987 = 10,824 (USW = 9,819; IPP = 1,005)

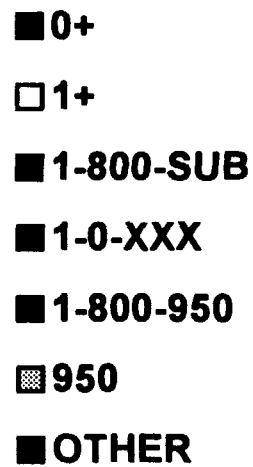
\* JULY 1996 = 10,783 (USW = 7,751; IPP = 3,032)

# TOLL CALL DISTRIBUTION

## INTRASTATE



0+	=	20.6%
1+	=	18.3%
1-800-SUB	=	56.5%
1-0-XXX	=	.7%
1-800-950	=	.05%
950	=	3.8%
OTHER	=	.08%



## INTERSTATE



0+	=	3.4%
1+	=	2.1%
1-800-SUB	=	90.6%
1-0-XXX	=	.5%
1-800-950	=	1.8%
950	=	1.6%
OTHER	=	.0%

# PER CALL COMPENSATION BY CALL TYPE

CALL TYPE	PARTY RECEIVING PRIMARY ECONOMIC BENEFIT
Local – Cash	Payphone Service Provider
Local – Non-cash (OSP)	Operator Service Provider
Local – Non-Cash (Store and Forward)	Payphone Service Provider
Toll – 1+ Cash	Presubscribed or Default Toll Provider
Toll – 0+Cash	Presubscribed Toll Service Provider
Dial Around	Toll Service Provider
1-800-Subscriber	1-800 Service Provider
1-800 Debit Card	1-800 Service Provider
Store and Forward Toll	Payphone Service Provider
Local Directory Assistance	Payphone Service Provider
Toll Directory Assistance	Toll Service Provider
Emergency/911	No Compensation
Telecommunications Relay Service	No Compensation

# **U S WEST TOLL TRACKING SYSTEM (BILL AND TRACK)**

## **① Use Billing System To Track All Toll Calls**

- \* U S WEST toll**
- \* Interexchange carrier Presubscribed toll**
- \* 1-800 calls**
- \* Access code calls**

## **② Bill and Track Used In Utah To Bill Carriers For Intrastate Per Call Compensation**

# **INTERLATA CARRIER SELECTION**

- ① RBOC PSP Participation In Selection Of InterLATA Carriers Is In The Public Interest.
- ① Creates “Level Playing Field” For All PSPs
  - \* RBOC PSPs can provide one stop shopping
  - \* RBOC PSPs can aggregate toll for small businesses
- ① Location Providers/Consumers Benefit
  - \* Significant reduction in “Carrier slamming”
  - \* Consumers will have rate predictability -- “no surprises”
  - \* Competitive impact on OSP will improve rates
- ① Adequate Safeguards Protect Against Cross-Subsidies And Discrimination

# PUBLIC INTEREST PAYPHONES

## ① Requesting Party Must Fund

- \* No controls of the number of payphones if request and funding not connected
- \* Iowa has worked under this scenario

## ① California Plan Will Not Work In Rural States

- \* Fewer providers
- \* Surcharges impede growth
- \* Lower density
- \* Lower average revenue per payphone
  - Lower potential for support

## ① Establish A Bidding Process To Determine Public Interest Provider